Public-Private Partnership

Toward More Effective International Development Cooperation

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Abstract: In the 21st century, the traditional model of official development assistance (ODA) promoted by developed countries is faced with many challenges. One of them is the emergence of the “public-private partnership (PPP)” model for international development cooperation (IDC), which has become increasingly popular among developed countries and international organizations over the past decade. This article explores the origin, meaning, and mechanism of the PPP model, and discusses the major obstacles it encounters in practice. The article also compares PPP

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with China's "development package" model, and puts forward some policy recommendations on China's participation in IDC. Although China is a pioneer in carrying out public-private cooperation in international development, it needs to fully reflect on its experience, so as to formulate clearer guiding principles and management rules on public-private cooperation. It is also imperative for the country to set up relevant institutions and mechanisms to promote PPP practices.

Keywords: International development cooperation (IDC); public-private partnership (PPP); China; development package; development finance.

Introduction: Transformation of Global Development Cooperation

The past seven decades have witnessed the rise of international development cooperation (IDC). Launched by developed countries, IDC has long been dominated by the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) and its member countries in terms of aid volume, agenda setting, and rule-making, among other things. Since the beginning of the 21st century, however, incremental changes have taken place, transforming IDC around the world.

First of all, the effectiveness of IDC led by OECD-DAC member countries, particularly the official development assistance (ODA) model, has been under wider question. Since the late 1990s, there has been heated debate within international academia on whether the ODA model can truly promote the development of underdeveloped countries and regions.¹ Although there remains no consensus on the issue, most of the parties in the debate admit that the actual effects of ODA are not quite satisfactory. To address the issue, the OECD-DAC has held four high-level forums on aid effectiveness, hoping to improve aid practices for better results. Notably, the 2005 "Paris Declaration on Aid Effectiveness" outlines five fundamental principles for making aid more effective, including "ownership," "harmonization," "alignment," "results," and "mutual accountability," which are now widely known to the international community.

¹Finn Tarp, "Aid and Development," *Swedish Economic Policy Review*, Vol. 13, No. 2 (January 2006), pp. 9–61.

Second, the rise of emerging donors, represented by China, India, Brazil, Turkey, and South Africa, has reshaped the landscape of IDC and, to a certain extent, undermined the dominance of DAC donors. IDC has become another important arena for “leading developing countries” to compete for voice with developed countries. Although the total aid volume of the emerging donors accounts for less than 10 percent of the global total, their development cooperation model, which is distinct from that of DAC donors, has aroused increasing attention and discussion in the political and academic circles of developed countries.²

Third, the emergence of new development cooperation models, including public-private-partnership (PPP), began to challenge the traditional ODA model. Since 2014, the OECD-DAC has been encouraging the private sector to participate in its annual Development Cooperation Reports, while emphasizing the role of ODA in mobilizing the private sector through risk sharing. The *United Nations 2030 Agenda for Sustainable Development* and the *Addis Ababa Action Agenda* further reflect the refreshed international understanding on the path to sustainable development. That is, in addition to traditional development assistance led by the governments, the private sector can play a more visible role in IDC. In practice, PPP projects in the IDC field (hereinafter referred to as development PPP) can be dated back to the end of the 20th century, such as the Challenge Fund of the United Kingdom and develoPPP.de of Germany, which have been widely adopted by developed countries including the United States, Japan, Australia, the Netherlands, Sweden, Denmark, and so on, as well as by such international organizations as the United Nations and the World Bank (see Table 1).

The traditional ODA model in international development cooperation is facing many challenges.

It is worth mentioning that in October 2018, President Trump signed the *Better Utilization of Investment Leading to Development (BUILD) Act*, and announced the establishment of the International Development Finance Corporation (IDFC) to replace the Overseas Private Investment Corporation (OPIC). It is an effort to innovate the way in which the United States participates in IDC.

²Lu Jiang, *Beyond Official Development Assistance: Chinese Development Cooperation and African Agriculture* (Singapore: Palgrave MacMillan, 2020), “Introduction.”

Table 1. Development PPP in Bilateral Donor Agencies.

Bilateral Donor Agencies	Total Aid (2016, bn USD)	PPP Department	Founding Year of PPP Department	Value of PPP Projects (by 2016, USD)
USAID	22.3	Center for Transformational Partnerships	2014	20 billion (over 1,600 partnerships)
GIZ	2.3	Private Sector Cooperation Unit	1999	1 billion (over 2,000 partnerships)
DFID	12	Business Engagement Hub	2011	715 million (in 2016)
DFAT	3	Business Partnership Platform	2015	2.9 million (first funding round)
JICA	11.4	Private Sector Partnership and Finance Department	2008	342 million (value of private sector investment finance in 2015)

Source: Based on Devex Report (2016) and information from the agency websites.

Abbreviations:

- USAID — U.S. Agency for International Development;
- GIZ — Deutsche Gesellschaft für Internationale Zusammenarbeit;
- DFID — Department for International Development (UK)
- DFAT — Department of Foreign Affairs and Trade (Australia)
- JICA — Japan International Cooperation Agency

By attracting private capital and encouraging American companies to invest overseas, the U.S. participation in IDC is expected to promote domestic employment and ultimately serve the U.S. national interests. Thus, the U.S. Congress approved a budget of up to \$60 billion for the new agency, more than double of that for the OPIC. This move is widely interpreted as the U.S. competing with China for investment opportunities and soft power in the developing world, as China’s expanding influence in developing countries and regions — with the advancing of the “Belt and Road Initiative (BRI),” in particular — has raised growing concerns in American political and business circles.³ In the face of China’s increasingly diversified development cooperation models, the EU and its member states are also integrating their international development policies with multiple issues in trade, foreign relations, and security.⁴

³Daniel F. Runde and Romina Bandura, “The BUILD Act Has Passed: What’s Next?” Center for Strategic and International Studies, October 12, 2018, <https://www.csis.org/analysis/build-act-has-passed-whats-next>.

⁴Sven Grimm and Christine Hackenesch, “China in Africa: What Challenges for a Reforming European Union Development Policy? Illustrations from Country Cases,” *Development Policy Review*, Vol. 35, No. 4 (2017), p. 549.

Although China is yet to officially adopt the notion of PPP, it has already conducted public-private cooperation and the “combination of business and aid” in foreign development cooperation, which is referred to as the “development package” model in this article. While developed countries tend to adopt a rather strict definition of development PPP, China has no fixed definition of similar models, which allows the application of public-private cooperation to be more inclusive and flexible, and clearly demonstrates the concept of common development advocated by China.

So far, intergovernmental organizations, international non-governmental organizations (NGOs), official development institutions, universities and think tanks have carried out extensive and in-depth research on the development PPP model, including its meaning, current situation and case studies,⁵ the adoption of development PPP in bilateral and multilateral development agencies,⁶ and the evaluation of the effectiveness of

⁵“Partnering for Global Development: the Evolving Links between Business and International Development Agencies,” Business Civic Leadership Centre (BCLC) of the U.S. Chamber of Commerce, 2009; Daniel Runde, Holly Wise, Anna Saito Carson, and Eleanor Coates, *Seizing the Opportunity in Public-private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC* (Washington, DC: Center for Strategic and International Studies, October 2011); Jose Di Bella *et al.*, *Mapping Private Sector Engagements in Development Cooperation*, (Ottawa: The North-South Institute, September 2013); Margaret Callan and Robin Davies, “When Business Meets Aid: Analyzing Public-Private Partnerships for International Development,” Discussion Paper 28, Development Policy Centre of Australian National University, 2013; and Ministry of Foreign Affairs of the Netherlands, “Public-Private Partnerships in Developing Countries,” IOB Study, No. 378, 2013.

⁶Andrea Binder, Markus Palenberg, and Jan Martin Witte, “Engaging Business in Development,” GPPi Research Paper Series No. 8, Berlin: Global Public Policy Institute, 2007; DFID, “The Engine of Development: The Private Sector and Prosperity for Poor People,” London and Glasgow, 2011; “Business Accountability for Development: Mapping Business Liability Mechanisms and Donor Engagement with the Private Sector in Development,” Brussels: CPDE, ITUN-TUDCN and EURODADA, 2015; UNDP, “UNDP’s Private Sector and Foundations Strategy for the Sustainable Development Goals 2016–2020,” New York and Istanbul, July 2016; and George M. Ingram, Anne E. Johnson and Helen Moser, “USAID’s Public-Private Partnerships: A Data Picture and Review of Business Engagement,” Global Economy & Development Working Paper 94, Washington DC: Brookings, February 2016.

development PPP projects.⁷ Yet, Chinese academia has paid little attention to the newly emerging PPP model, and there is no research to compare it with China's development package model. In light of that, this article aims to study the meaning, origin, characteristics and application of the development PPP model as well as its current challenges. It also compares the concepts and practices of PPP and China's development package model. In the end, a few policy recommendations are proposed on China's future participation in IDC.

The Rise of PPP in International Development Cooperation

"Public-private partnership" was originally a concept for the cooperation between the public sector and the private sector in domestic public facilities, especially in infrastructure and services. The model began to be adopted by some countries and international organizations in the 1980s.⁸ Under the advocacy of the World Bank and other international institutions, the PPP model has been widely adopted globally, especially in the developing world, since 2005.⁹ Although there is no authoritative definition of PPP, it is generally agreed that the model highlights the cooperation between the public and private sectors in resource investment, risk diversification and

⁷Kent Buse and Andrew M. Harmer, "Seven Habits of Highly Effective Global Public-Private Health Partnerships: Practice and Potential," *Social Science & Medicine*, Vol. 64 (2007), pp. 259–271; Keith A. Bezanson and Paul Isenman, "Governance of New Global Partnerships: Challenges, Weaknesses, and Lessons," CGD Policy Paper 14, Washington, DC: Center for Global Development, 2012; Sabá Loftus, "Public-Private Partnerships: Benefiting or Hindering International Development?," *Global Policy Watch*, 2016; Lea Stadler, "Scrutinizing Public-Private Partnerships for Development: Towards a Broad Evaluation Conception," *Journal of Business Ethics*, Vol. 135 (2016), pp. 71–86; and David W. Parker, Uwe Dressel, Delroy Chevers, and Luca Zeppetella, "Agency Theory Perspective on Public-Private-Partnerships: International Development Project," *International Journal of Productivity and Performance Management*, Vol. 67, No. 2 (2018), pp. 239–259.

⁸Lawrence L. Martin, "Making Sense of Public-Private Partnership (P3s)," *Journal of Public Procurement*, Vol. 16, No. 2, 2016, pp. 191–207.

⁹Kate Bayliss and Elisa Van Waeyenberge, "Unpacking the Public Private Partnership Revival," *Journal of Development Studies*, 2017, pp. 577–593.

profit sharing, in order to meet private demands and achieve public goods more effectively at the same time.¹⁰ Since its inception, the meaning of PPP has been continuously expanded. Now, it covers outsourcing, franchising, joint ventures, private financing initiatives, equity privatization of state-owned enterprises (SOEs), and more.¹¹

PPP was first introduced into IDC toward the end of the 20th century. After World War II, IDC was dominated by official institutions like donor governments and intergovernmental organizations (hereinafter referred to as development agencies). Although the private sector was involved in IDC in one way or another (for instance, the USAID proposed private enterprises as executors of U.S. foreign aid in the "Private Enterprise Initiative" in the early 1980s),¹² PPP in IDC did not come in full swing until after the end of the Cold War, with private capital aiding the developing world rapidly catching up with ODA. By the end of the 1990s, PPP projects had

accounted for 82 percent of the total aid volume to developing countries, while ODA only 18 percent.¹³

In face of these changes, development agencies came to realize that the private sector is a force that cannot be ignored in the field of IDC, and began to consider how to limit the potential negative effects while leveraging the private resources and directing them to least developed countries (LDCs), where it is more difficult to attract foreign investment.¹⁴ In addition, involvement of

Public-private-partnership has been a popular model in international development cooperation since the 1990s.

¹⁰Ministry of Foreign Affairs of the Netherlands, "Public-Private Partnerships in Developing Countries," p. 17.

¹¹The Stationery Office of the UK, *Public Private Partnerships: The Government's Approach*, (London: The Stationery Office, 2000), pp. 8–9.

¹²Curt Tarnoff, "The Private Enterprise Initiative of the Agency for International Development," Congressional Research Service, 1989.

¹³Doug Ierley, "Private Capital Flows as a Springboard for World Bank Reform," *Journal of International Law*, Vol. 23, No. 1 (2002), pp. 1–2.

¹⁴Andrea Binder *et al.*, "Engaging Business in Development: Results of an International Benchmarking Study," pp. 13–14.

the private sector enhances the impact and sustainability of development cooperation projects.¹⁵

Many private enterprises which are interested in direct investment in the developing world are also eager to cooperate with development agencies. They hope to benefit from development agencies' good reputation, powerful influence, long-term experience and networks accumulated in overseas ODA projects, which will help them seek business opportunities, improve the business environment, reduce investment risks and increase profits in the developing world.¹⁶ For enterprises hoping to establish a responsible corporate image by carrying out social public welfare activities or striving for a balance between profits and development goals by adopting the "inclusive business model" or "pyramid-base approach," cooperation with development agencies and even private charities and NGOs is also helpful to the influence and sustainability of their activities.¹⁷ In this context, it is mutually beneficial for public and private actors to engage each other in IDC.

As an emerging model of IDC, what distinguishes development PPP from traditional ODA is the involvement and role of the private sector, especially enterprises. While the private sector only has a relatively minor or executive role in traditional cooperation models, it has been given an equal "partnership" with the public sector in development PPP. First, the private sector is defined as a resource partner, who is required to provide a considerable proportion of resource elements in development cooperation projects, including capital, expertise, technology, sales and channels, etc. Taking capital as an example, the Global Development Alliances (GDA) of the USAID and challenge funds by many development agencies clearly stipulate that the financing provided by participating enterprises should

¹⁵Daniel Runde *et al.*, "Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC," p. 6.

¹⁶George M. Ingram *et al.*, "USAID's Public-Private Partnerships: A Data Picture and Review of Business Engagement," pp. 67–70; and Andrea Binder *et al.*, "Engaging Business in Development: Results of an International Benchmarking Study," pp. 15–17.

¹⁷Daniel Runde *et al.*, "Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC," pp. 5–6.

not be less than 50 percent of the total project cost.¹⁸ Second, the private sector is encouraged to participate in all aspects of the development cooperation projects, from decision-making and financing to implementation and regulation, rather than act simply as an outsourcer or executor of official assistance projects under the ODA model.¹⁹ Third, the profit targets of the private sector are recognized and encouraged — sometimes even as a prerequisite for the cooperation with the public sector. For example, USAID-GDA projects and develoPPP.de projects of the German Federal Ministry for Economic Cooperation and Development (BMZ) both require that cooperation projects should reflect the core commercial interests of the enterprises.²⁰

Commercial Model of Development PPP: Development-Oriented Investment

Under the commercial cooperation model, the private sector, especially enterprises, is required to tap into their strengths and expertise to participate in development cooperation agendas or projects by providing clear and economically viable business investment proposals. This kind of investment is different from pure commercial investment in two ways: for one, it values development impacts rather than focuses on profits, so it is called “development-oriented investment” or “impact investment.” If the return on investment is lower than the average level of pure commercial

¹⁸Marian Lawson, “Foreign Assistance: Public-Private Partnerships (PPPs),” Washington, DC: Congressional Research Service, 2011; See also Daniel Runde *et al.*, “Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC.”

¹⁹For the definition of PPP by the USAID, see “Public-Private Partnerships Historical Dataset Background,” <https://www.usaid.gov/opengov/developer/datasets/PPP%20Dataset%20Back%20ground%208.4.14.docx>.

²⁰According to whether the projects include for-profit goals, development PPPs can be divided into the non-commercial cooperation model and the commercial cooperation model. Under the non-commercial cooperation model, the private sector invests resources in PPP projects free of charge for undertaking corporate social responsibility and green marketing, not for the purpose of direct profits. This paper only discusses the commercial cooperation model for profits in development PPPs.

investment, or the return cycle is longer than expected, or there appears a high risk of loss, development agencies will regard it as “patient capital” and prepare for possible investment loss or even failure. For another thing, thanks to the participation of the public sector, development-oriented investment is expected to bring greater development results or “additional impacts.” For, if there is no development agency to take the initiative to bear certain costs and risks, enterprises may be reluctant to invest in underdeveloped markets with higher investment risks. Moreover, without the participation of the public sector, private sector investment will be less effective in promoting development goals.

In order to engage more participation of the private sector in international development, development agencies often take some measures to attract enterprises with for-profit goals to join. At present, the most common ways are to make use of various capital levers of different natures and purposes.²¹

Development-oriented investment is usually a result of public-private cooperation.

First, *grants facilities*. Development agencies encourage enterprises to make development-oriented investment by providing funds as a subsidy or bonus. One typical example of grants facilities is the “challenge fund,” which is widely adopted by development agencies in developed countries. “Challenge fund” is a competitive financing facility to disburse donor funding for international development projects, typically utilizing the public sector or private foundation funds for market-based or incentive-driven solutions, in particular those of a certain innovative and pilot nature, so the winning bidders are usually small- and medium-sized projects. Successful bidders can get financial support from development agencies. Yet, according to the requirements of the “resource partner,” enterprises also need to provide a considerable proportion of funds. The amount of a challenge fund ranges from a few hundred dollars to hundreds of millions of dollars, most of which are provided in the form of free funding and a few

²¹Daniel Runde *et al.*, “Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC,” pp. 29–31.

in the form of loans; the support usually lasts three years, after which the project is expected to be self-sufficient.²² In addition, development agencies can use grants facilities in other ways, such as through government bidding (e.g., develoPPP.de in Germany; PSOM in the Netherlands²³) or by enterprises themselves (e.g., GDA in the United States; ICP in Canada²⁴). These methods often do not limit the specific areas of development cooperation, and development agencies have greater discretion in the selection of projects. The proportion of free funding is also different from that of “challenge funds”; for some projects, the proportion of free funding is as high as 70 to 80 percent (e.g., ICP in Canada²⁵).

Second, *investment facilities* (or LEGs²⁶). Development agencies, especially development finance institutions (DFIs) that are dedicated to supporting the private sector development in developing countries, promote development-oriented investment by providing loans, equity participation and other means. The funds provided by DFIs are generally “patient capital” and development-oriented, that is, they pay more attention to the long-term economic and social benefits that the capital can bring in the future rather than short-term investment returns, and are prone to financial support for investment projects in the least developed countries or regions.²⁷ Loans to enterprises participating in development PPP or equity participation are usually realized through DFIs. Compared with grants facilities, investment facilities have a larger capital pool because they rely on DFIs with profit returns; they can also support some large- and medium-sized projects, and the funding for individual projects is relatively greater.

²²Claudia Pompa, *Understanding Challenge Fund* (London: Overseas Development Institute, 2013). The Africa Enterprise Challenge Fund (AECF), which is jointly funded by the governments of the United Kingdom, the Netherlands, Denmark, Sweden, Canada, Australia and two development financing institutions, is a typical case in this regard.

²³Program for Cooperation with Emerging Markets.

²⁴Industrial Cooperation Program.

²⁵Andrea Binder *et al.*, “Engaging Business in Development: Results of an International Benchmarking Study,” pp. 27–28.

²⁶This name is borrowed from the ICAI report (2015), standing for Loans, Equities, and Guarantees.

²⁷The Development Finance Institution (CDC) and the Private Infrastructure Development Group (PIDG) are typical examples of bilateral and multilateral DFI respectively.

Unlike free funding, investment facilities are similar to market-oriented commercial investment.

Third, *risk-reducing facilities*. Development agencies and development financing institutions try to minimize investment risks of enterprises by providing free funds or loans, equity participation and guarantee, etc., and by promising to buy parts of the output of investment or bear parts of the loss in case of investment failure, so as to encourage enterprises to make development-oriented investment. For example, the advance market commitment (AMC) model adopted by Gavi,

Development agencies use many means to encourage participation of the private sector in international development.

the Vaccine Alliance in the field of pneumococcal vaccines, is to purchase vaccines that meet the standards of the World Health Organization (WHO) produced by private pharmaceutical companies through financing from bilateral development assistance agencies and private foundations, and then investing them in less developed countries in dire need of the vaccines. In this way, an effective PPP system is built. This stable and low-risk model of purchase has greatly stimulated the enthusiasm of the private sector in the long term.²⁸ Another example is the catalytic first-loss capital (CFLC) model, which is extensively adopted in the field of “impact investment” and allows development assistance or financing institutions to provide funds to enterprises and promise to bear the loss first in the event of investment failure. In addition, the provision of guarantee is also a common way of risk reduction. Generally speaking, the guarantee is provided by DFIs, but sometimes it is also provided by development agencies.²⁹

Limitations of Northern Development PPP

An increasing number of official development agencies have begun to promote PPP over the past decade. Nonetheless, this model is yet to become

²⁸“AMC Changes Mindset of Pharmaceutical Industry,” GAVI, November 24, 2009, <https://www.gavi.org/library/news/roi/2009/amc-changes-mindset-of-pharmaceutical-industry>.

²⁹Examples of DFI are GuarantCo of PIDG and CDC; examples of development agencies include Development Credit Authority of the USAID and Sida.

the mainstream and remains a complement to ODA led by the public sector. There are also differences in the evaluation of development PPP projects. Although most advocates think that PPP represents a possible transformation from the traditional development cooperation model,³⁰ some scholars have pointed out that it has not been completely proven as a better model than the traditional ODA.³¹ The problems existing in the rules and operation of development PPP will directly affect the expected outcomes and application prospects of the model.

In terms of rules, developed countries and international organizations have formulated a set of principles and regulations in an attempt to regulate development PPP, including its focus on additionality (that is, better development effect) and neutrality.

Above all, nearly all developed countries and international development agencies involved in development PPP regard additionality as an important principle. They believe that if PPP fails to outperform the ODA model led by the public sector in terms of resources, efficiency and sustainability, or if its development effect is not visibly better than the spillover effect of pure commercial investment, then it is not sufficiently justified and may lead to unfair competition.³² However, at the practical level, apart from the difficulties and costs of quantified evaluation of the development effect, existing evaluation reports have shown no advantage of PPP in this regard.³³ For example, ICAI and Netherlands Environmental Assessment Agency both questioned the extent to which

³⁰José Antonio Alonso, "From Aid to Global Development Policy," DESA Working Paper No. 121, September 2012.

³¹CAFOD, "Public-Private Partnerships (PPPs) in International Development: Are We Asking the Right Questions?" Discussion Paper, Catholic Agency for Overseas Development, April 2013, pp. 7–19; and Lawson, "Foreign Assistance: Public-Private Partnerships (PPPs)," pp. 10–14.

³²European Commission, "A Stronger Role of Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries," May 13, 2014, <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX%3A52014DC0263&qid=1400681732387&from=EN>, p. 5.

³³ICAI, "Business in Development," London: Independent Commission for Aid Impact, 2015, pp. 26–28.

development-oriented investment under the PPP model helps to improve the welfare of the poor.³⁴

Next, neutrality is a principle that has always been emphasized by Northern (developed) countries and international aid agencies. Its essence can be understood as development agencies or donors themselves not benefitting economically from aid projects, at least not directly; in particular, they are not allowed to help domestic enterprises to derive economic benefits from the projects.³⁵ Specifically, government support should not cause unfair competition between private enterprises involved in PPP and other market actors.³⁶

It is necessary to emphasize neutrality, but it is difficult to adhere to the principle in practice. A fundamental difficulty lies in the motivation of the donor. The donor is no angel; and aid has always been a tool of national foreign policy, even if it is ostensibly independent of the government's foreign relations and trade. In reality, development agencies cannot escape the diplomatic and commercial interests of the home country. For example, the Trump administration has explicitly incorporated the notion of "America First" into the U.S. agenda for foreign development cooperation. DFID in the United Kingdom points out in its official report that "[p]romoting wealth and job creation in the poorest countries is not just morally right, but it is in the UK's interests too. It is in the emerging markets that were poor just 10 or 20 years ago that UK companies are now winning new business and which are expanding at unprecedented rates."³⁷ CDC in the United Kingdom has also followed the win-win concept of "do good without losing money" since its inception. OPIC in the United States has always regarded promoting U.S. foreign policy and national security, as

³⁴PBL-NEAA, "Public-Private Partnerships in Development Cooperation: Potential and Pitfalls for Inclusive Green Growth," PBL Netherlands Environmental Assessment Agency, 2015.

³⁵In development PPPs, European Commission defines "neutrality" as "the support given should not distort the market and should be awarded through an open, transparent and fair system. It should be temporary in nature with a clearly defined exit strategy." See European Commission, "A Stronger Role of Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries," p. 5.

³⁶Lawson, "Foreign Assistance: Public-Private Partnerships (PPPs)," p. 13.

³⁷DFID, "The Engine of Development: The Private Sector and Prosperity for Poor People," p. 7.

well as helping American companies gain a foothold in emerging markets, as one of the goals of financing development-oriented investment. In addition, the vast majority of development institutions in developed countries involved in development PPP generally prefer domestic enterprises as partners, with limited numbers of local enterprises in the recipient countries; they usually do not consider enterprises in a third country, and many of them make no secret of their intention to help their domestic enterprises to explore potential emerging markets.

Development-oriented investment can hardly avoid the tendency to meet the material interests of the investor's home country.

Moreover, although the enterprises involved in development cooperation investment seldom pursue profit maximization explicitly, the profit-seeking nature of enterprises cannot be changed. First, in the process of participating in development PPP, private companies are always looking for and involved in areas that are more profitable for them. According to a report on USAID development PPP by the Brookings Institution, 83 percent of all PPP projects are

related to the business interests of participating companies, while only 17 percent are driven by philanthropic goals. Second, the extent to which enterprises are willing to invest is also closely related to their profits from PPP projects.³⁸ Third, when choosing the location of cooperation, enterprises are significantly more enthusiastic in participating in PPP projects in middle-income countries with higher levels of development than those in LDCs, which are regarded as a "distortion of development priorities," making it difficult for the LDCs, which are most in need of resources, to benefit from the PPP model.³⁹ Finally, companies that participate in development PPP are not necessarily more responsible in business behavior than independent actors. In response, DFID commented that "[w]e are not starry-eyed. Private companies can behave badly or simply ignore

³⁸Ingram *et al.*, "USAID's Public-Private Partnerships: A Data Picture and Review of Business Engagement," pp. 67–70.

³⁹Lawson, "Foreign Assistance: Public-Private Partnerships (PPPs)," p. 12.

the marginalized.”⁴⁰ Developed countries have also realized that working with misbehaving private companies may damage the image of aid agencies.⁴¹

The public sector regulates the behavior of private-sector actors mainly through setting standards, assessment and screening (such as due diligence), signing agreements, strengthening supervision, and so on, but these measures face various difficulties in practice. For example, official development agencies often face such challenges as insufficient manpower and technology. The situation often leads to ineffective regulation, and usually calls for outsourcing to professional management companies.⁴² In the meantime, too much regulation makes development PPP less attractive to enterprises, which runs counter to the purpose of the “partnership,” thereby reducing enthusiasm of the private sector to participate in development PPP.

In terms of practice, development PPP projects by developed countries and international organizations also have limitations. First, the continuity of a project is often poor. Development PPP projects usually have long cycles and complex cooperative relations. Therefore, any change in the leaders and decision makers in any party may interrupt the projects or even shift the direction of project development, making the projects less effective.⁴³ Besides, due to the lack of strict enforcement of rules and regulations, the rights and obligations of the public and private sectors cannot be effectively protected and supervised, which would lead to the abortion of the PPP project. Second, cooperation is inefficient and limited. The success of PPP projects is based on effective cooperation between the public sector and the private sector. But in reality, many project partners lack coordination, communication and cooperation. This is partly due to the fact that the public sector usually seeks partners from the private sector after setting the project scope and objective, making it difficult for the latter to participate at the planning stage. The participation of the private sector is restrained by the framework set by the government. Thus, the demands of the private

⁴⁰DFID, “The Engine of Development: The Private Sector and Prosperity for Poor People,” p. 5.

⁴¹Lawson, “Foreign Assistance: Public-Private Partnerships (PPPs),” p. 13.

⁴²ICAI, “Business in Development,” p. 34.

⁴³Allah Bakhsh Malik, “Public-Private Partnerships in Education: Lessons Learned from the Punjab Education Foundation,” *Asian Development Bank Report*, 2010, p. 28.

sector, which are often different from those of the public sector, can hardly be fully met, causing conflicts between the two sides after the launch of the projects. In the process of establishing and implementing project contracts, the unclear rights and responsibilities of the public and private partners have also led to some conflicts. Third, personnel motivation is insufficient. At present, whether in the public sector or the private sector, employers seldom use incentives for employees in the PPP projects, with little extra financial support or the promise of career promotion. Finally, project evaluation is inadequate. The existing evaluation methods of most development PPP projects are not quite scientific. For example, current evaluation of PPP projects does not follow the professional influence assessment methods, making it less accurate.⁴⁴ Even worse, only a very small number of PPP projects are tracked and evaluated in the whole process; and even if a project is evaluated, it is limited to resource sharing without considering risk sharing and income distribution.⁴⁵

To sum up, although the development PPP model advocated by official development institutions of developed countries is appealing in concept, there are still many challenges in practice. To a certain extent, its strict rule-setting limits the flexibility of implementation and even leads to self-contradiction. For instance, the principle of neutrality and win-win demands are difficult to reconcile. All those challenges may affect the expansion and application of the development PPP model.

Chinese Practice of “Development Package”: the Case of Agriculture

For Southern (developing countries) development partners, similar public-private cooperation (featuring private engagement and business model) also exists. Indeed, the practice of blending commercial and charitable elements in IDC is believed to be even more fluid for Southern actors.⁴⁶ In contrast to DAC donors who always prefer to deal with ODA in a very

⁴⁴Ibid.

⁴⁵Ministry of Foreign Affairs of the Netherlands, “Public-Private Partnerships in Developing Countries: A Systematic Literature Review,” p. 13.

⁴⁶Laurence Chandy, “Reframing Development Cooperation,” in “From Aid to Global Development Cooperation,” Brookings Blum Roundtable Policy Briefs, 2011, p. 10.

independent and “neutral” way, Southern actors are believed to have “taken account of wider political and economic interests.”⁴⁷ This has constituted a marked feature of the way Southern development partners engage with Africa — particularly typical in the case of China and India, and to a lesser extent, Brazil, Turkey and South Africa — with an objective for mutual benefits. It is referred to as “development package” in this article, indicating the mix of cooperation modalities with a clear view to achieving development objectives for both recipient countries and the development partner countries themselves.

There are actually plenty of similarities between Northern development PPP and the Chinese development package. They follow the same basic logic of public-private cooperation in terms of co-investing resources and sharing benefits and risks, among other things, between the public and (broader) private actors. They both utilize financial leverage — especially that of grants, loans, equities and guarantees⁴⁸ — to attract and mobilize private and particularly corporate actors to engage in IDC. They both encourage corporate actors to bring in business models to IDC, in other words, to promote development by means of investment.

China's development package is aimed to promote mutual development of all partners.

The largest distinction between the two seems to be the objectives of utilizing the public-private cooperation: while China always upholds “mutual development” in applying the development package model, Northern donors tend to emphasize the recipient-oriented developmental impact over the self-interest-pursuing aspect of PPP projects by applying certain rules like additionality and neutrality as mentioned above. Other differences include, for instance, more engagement of SOEs in China's development package model than that in Northern PPP, and a lack of specialized financial institutions (such as DFIs of Northern countries) in China — instead, the national development bank (China Development Bank)

⁴⁷Richard Manning, “Will ‘Emerging Donors’ Change the Face of International Co-operation,” *Development Policy Review*, Vol. 24, No. 4 (2006), p. 376.

⁴⁸Risk-reducing facilities have not yet been utilized in China's development package model.

and export credit agency (EXIM Bank of China) take charge of relevant issues. Moreover, China advocates inclusiveness and flexibility in development cooperation, which Northern donors can emulate in their future application of the development PPP.

Notably, agriculture is the frontier area for China to apply or experiment with its innovative development package model with Africa. Three distinctive forms can be observed within the “development package”: the “traditional agro-aid,” “innovative agro-aid,” and “agribusiness” models.

The “traditional agro-aid model,” as the name suggests, remains largely the same as agricultural cooperation from the 1960s to the 1990s that features food aid and other aid forms, but with a greater focus on the role of agro-technology. Hundreds of Chinese agro-experts have been sent to African countries to help with agricultural development plan-making and technical issues. Constant exchange and training programs are held both in China and partner countries of Africa. Meanwhile, China has participated actively in different multilateral cooperation mechanisms, such as those with the Food and Agriculture Organization of the United Nations (UN-FAO) and OECD-DAC, in order to collectively contribute to the development of African agriculture. The Chinese government also continues to support agro-infrastructure building and provides assistance in cash and kind, including emergency food aid, to a number of African countries.

The “innovative agro-aid model” is exemplified by the Chinese agricultural technology demonstration centre (ATDC) projects in Africa. While at first glance, the ATDCs look more like a hybrid of the different “agro-aid” forms adopted before (e.g., farms, agro-technology demonstration/extension centers, and experts dispatch), the “innovative” part lies in the engagement of corporate actors and commercial operation. The aim of doing so is primarily to fix the problems of project inefficiency and unsustainability as experienced in the past, so as to enhance the performance and developmental impacts of new aid projects. Equally important, ATDCs are expected to serve as a platform and entry point for Chinese agro-firms — not only those acting as the implementing agencies, but other agro-firms interested in investing in the ATDC-hosting countries as well — to explore overseas markets. In practice, this combination of traditional aid and innovative business model is realized through the

design of two consecutive operational phases of ATDCs, specifically the three-year “technical cooperation stage,” when the centers are fully funded by the Chinese government to perform “public-interest functions” (e.g., agro-technology demonstration and training), and then the “commercial operation stage,” in which the implementing firms are expected to be self-funded through market-oriented production while at the same time continuing with the public-interest functions. Up to now, there have been more than 20 Chinese ATDCs established across different African countries.

The third form is the “agribusiness model.” To a certain extent, the “agribusiness model” can be regarded as regular agricultural investment, but the “developmental” nature of agriculture and agribusiness, as well as some intentional development-oriented efforts involved in many of these investment projects, makes it another key component of the “development package.” For instance, most Chinese agro-firms currently engage in the production stage of the agribusiness value chain and bring with them relatively more advanced agro-equipment and techniques, thus making a direct contribution to rising productivity in the agricultural sector. The Chinese agribusiness projects in Africa often involve employing and training local smallholder farmers, through plantation production or through contract-farming models, and hence help with creating more jobs and alleviating local poverty. Due to the limited production scale at the current stage, most of Chinese investment projects, especially those engaged in grain-crop business, serve the local markets only and play a positive role in increasing food supplies and enhancing food security of the recipient countries. Besides, many of these agribusiness projects have been partially financed by the Chinese government through concessional or commercial loans with a clear view to supporting African agriculture. In total, there are around 100 Chinese agro-firms that have invested in different countries across the continent either individually or through partnering with the Chinese government.

Despite the novelty of the development package model and some of its positive results as confirmed by the project-level fieldwork, a number of practical problems have also been observed, which may lead to certain “implementation gaps” of Chinese agro-development

China's agro-development cooperation policy in Africa needs better implementation.

cooperation policy in Africa.⁴⁹ That said, it is still too early to give any final judgment to the development package model. As already noted, China's development cooperation policy, instead of being a deliberately devised and ready-made one, is more a policy-in-the-making and experimental — a practice seen in many areas of China's domestic policies, especially for new policies. Problems and challenges, therefore, can hardly be prevented and should be regarded acceptable *as long as* timely reflection and quick learning is involved (though it is worth further research on whether this sort of feedback mechanism is present and how effectively China's development cooperation policy in Africa has been carried out).

Conclusion

At present, it is a general trend to engage private-sector actors, especially enterprises, in international development cooperation. Despite the many potential difficulties, development PPP as a new model has played an ever greater role in the interaction between research and practice. On the one hand, this is due to the fact that traditional official assistance is failing to meet practical needs in terms of scale and effectiveness, and PPP is complementary to the existing model. On the other hand, PPP — especially the commercial cooperation model — recognizes the win-win concept, which can provide donors with necessary economic incentives, thus promoting the diversification and sustainability of development financing. China is a forerunner in introducing private-sector actors to participate in foreign development cooperation. However, in practice, China's development package model not only faces challenges similar to Northern development PPP, but it has also experienced some unique difficulties, which call for proactive efforts from the country.

Most importantly, China should have a clear understanding of its unique position as a developing country in defining the principles of applying the development package, such as highlighting the principles of pragmatism and mutual benefits rather than additionality and neutrality emphasized by Northern countries. China should also bear in mind that it has not yet achieved comprehensive industrialization and still faces many

⁴⁹For more, see Lu Jiang, *Beyond Official Development Assistance: Chinese Development Cooperation and African Agriculture*, Chapter 5.

development problems; therefore, its investment will not only contribute to the target country's development, but it should also help Chinese enterprises to "go global." In fact, developed countries put much emphasis on the non-profit motivation of development cooperation largely because of their superiority in the international system and the mentality of compensating for their past colonial history, while China and other Southern donors do not have such "historical burden." Therefore, it is easier for the recipient countries to embrace the emerging economies' discourse of mutual benefits and win-win results. Hence, in pursuing development cooperation under the development package model, especially those projects involving profit targets, China needs to continue adhering to the principle of consultation on an equal footing with the recipient countries.

Effective restriction on corporate behavior is also a challenge that China faces when adopting the development package model. It cannot simply count on the self-discipline of profit-seeking enterprises. Considering that development cooperation is not only of economic significance, but also has an important impact on China's diplomacy, especially on shaping China's image of a responsible major actor in the international community, it is necessary for China to further refine the specific rules for PPP in development cooperation and effectively manage the behavior of the private sector. For one, desirable values and principles should be promoted, such as the more balanced approach to upholding principles and pursuing interests emphasized by President Xi Jinping. For another, China needs to employ more practical measures, such as carrying out open and fair project bidding, conducting strict qualification examination, and signing contracts that clearly define the responsibilities, obligations, benefits and risks of the government and enterprises. A systematic evaluation system for development cooperation projects should also be established; and projects using state funds must be under stricter supervision.

Moreover, China should consider setting up a foreign development financing institution similar to DFIs of developed countries, or merging the related departments of the Export-Import Bank of China and the China Development Bank to form a new institution. Under the China International Development Cooperation Agency (CIDCA), a specialized institution can be installed for public-private cooperation and the mechanism for joint meetings between commercial, foreign relations and development departments, in order to promote the coordination, regulation, and supervision of

project partners. At the same time, China should set up more research institutions or think tanks on international development. It will make up for the lack of human resources commonly faced by official development agencies, while assisting CIDCA in establishing and improving such mechanisms as on sustainability, cooperation, incentives, evaluation, and feedback that are critical to development cooperation, including PPP projects.